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INTELLIGENCE MEMORANDUM

AN EXAMINATION OF THE CHARGES OF CHINESE COMMUNIST INVOLVEMENT, IN THE ILLICIT OPIUM TRADE

CIA/RR IM-438

9 November 1956

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(ORR Project 42.972)

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AN EXAMINATION
OF THE CHARGES OF CHINESE COMMUNIST INVOLVEMENT
IN THE ILLICIT OPIUM TRADE*

Summary

There is no reliable evidence to indicate that the government of Communist China either officially permits or actively engages in the illicit export of opium or its derivatives to the Free World. There is also no reliable evidence of Chinese Communist control over the lucrative opium trade of Southeast Asia and adjacent markets. There is evidence, however, that small quantities of raw opium produced by minority tribes in Yunnan Province, Communist China, move over the Burmese border. The annual earnings of the Chinese Communist tribes from such sales probably would not exceed US \$500,000** per year. Currently, Communist China is attempting to win the favor of the Yunnan border tribes, and it may be that, because of political expediency, Communist China permits small-scale violation of its strict antiopium program.

The principal opium-producing areas in the Far East are in Burma and Laos. The production of opium in these countries, in addition to production in Thailand, is sufficient to supply the great mass markets of Burma, Thailand, and Indochina and to provide a further export potential of the equivalent of 150 metric tons*** of raw opium a year.**** This export moves principally through Thailand and to a lesser extent through Burma to markets in Malaya, Hong Kong, and Macao. Estimates of consumption and reports of seizures indicate that exports to these markets for domestic consumption probably do not exceed the equivalent of 50 tons of raw opium a year. Of the remainder (approximately 100 tons), part is probably hoarded;

* The estimates and conclusions contained in this memorandum represent the best judgment of ORR as of 10 October 1956.

** Dollar values throughout this memorandum are given in terms of US dollars.

*** Tonnages throughout this memorandum are given in metric tons.

**** Estimates of consumption and export figures from reports of seizures are given in terms of raw opium equivalents throughout this memorandum.

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part moves to other markets, principally through such transit ports as Hong Kong and Singapore; and approximately 40 tons are seized.

The governments of Burma, Thailand, and Laos either explicitly or tacitly permit the production of opium by the minority tribes. These governments have only nominal control over the majority of these tribes, and attempts to suppress opium production very likely would result in strenuous resistance. Furthermore, these tribes traditionally have relied on the sale of their opium crop as a source of cash income, and a ban on its production would work an economic hardship on these people.

The principal profits from opium, however, are not earned by the producers but by the opium traders, middlemen, and government officials. For example, reliable price data indicate that the Burmese producers realize less than \$1.5 million for the 90 tons of Burmese opium which transits Thailand annually. This same quantity of opium in Bangkok is worth approximately \$9.5 million, and, when delivered in foreign markets like Singapore, its wholesale value is increased to almost \$25 million. This large increase in value illustrates the lucrative profits earned by the traders, the middlemen, and the opium runners, as well as the bribed government officials involved in the opium trade. This trade is substantially in the hands of private traders motivated by considerations of profit and not by ideological factors.

Southeast Asian opium is exported either in raw, crudely processed form or in a relatively highly refined form. In the estimates mentioned above, morphine, heroin, and other derivatives have been converted to raw-opium equivalents. There are several refineries located in Thailand near the Thai-Burmese border, and it is believed that the majority of the morphine and other refined forms of narcotics which move through Thailand are processed in this area. Other refineries are located in the major market and transit areas. For example, in 1955 there were four known refineries operating in Macao, and extensive clandestine facilities for refining morphine and heroin are known to have existed in Hong Kong.

Countries of the Near East and South Asia also supplied significant quantities of opium to the world's illicit markets, including even those in Southeast Asia. For example, it is estimated that in 1955 Malaya received 50 tons of opium from Iran and 12 tons from India. The Near East and South Asia, however, also constitute a major consuming area and consume far more than they export.

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Minor markets exist in other areas of the world. These markets are supplied with opium produced in Southeast Asia and in the countries of the Near East and South Asia. The European and African opium traffic has been characterized by the UN Commission on Narcotic Drugs as "not important." The North American market appears to be supplied principally with opium from Lebanon and Mexico.

There appears, therefore, to be production in the Free World of opium which is more than adequate to meet the demands of the two great opium-consuming areas -- the Near East and Southeast Asia -- and in view of the extremely limited foreign exchange which Communist China might earn from the production of opium, appreciable official Chinese Communist participation in such production is unlikely. Trade and refinery processing appear to be in the hands of non-Communists, and Communist China does not appear to have any effective control over individuals engaged in these activities.

I. Introduction.

Smuggling of goods in the Near East and the Far East is a commonly accepted trade channel. Border areas are in some cases poorly defined, and in extreme cases exist only as a line on a map. Even well-defined borders are often poorly guarded. Customs officials, military authorities, and police enforcement officers customarily supplement their low salaries by accepting bribes from smugglers or by actually engaging in smuggling themselves. Central governments hesitate to enforce laws which would change traditional trading customs and provoke the hostility and resentment of semiautonomous minority ethnic groups. Under these conditions, smuggling flourishes.

One of the commodities most frequently smuggled is opium. Opium in these regions is more than a narcotic: it is a medium of exchange and a store of value. The governments of Asia in general do not regard the use of opium with the same abhorrence that Western governments do. One official Southeast Asian view of production and traffic in narcotics was voiced by the Burmese government to the UN Opium Conference in 1953 when it commented as follows on a proposed protocol to limit and regulate the cultivation of the poppy plant: "In the Shan State and the Kachin State ... the hill tribes find it an

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economic necessity to cultivate poppy for their own consumption, besides striking a favorable balance in their barter trade in which they have been traditionally engaged from time immemorial. The prohibition of poppy cultivation in these areas has all along been a difficult problem, as poppy is a cash crop in these areas." 1/* Recently the Chief Minister of Malaya, Tengku Abdul Rahman, called for a return to the prewar system of registering known addicts and permitting them certain prescribed amounts of opium. One of the reasons advanced by the Chief Minister for the legalization of opium smoking was that revenues of approximately \$165,000 yearly would accrue to the government. It should be noted, however, that the proposal of the Chief Minister was greeted by a storm of criticism. 2/

Addiction to narcotics in the Near East and in parts of the Far East is extensive, and, because trade in narcotics generally is officially prohibited, there is a large and lucrative illicit trade. As an illustration of the profits involved in this trade, it is estimated that, in the Malayan area, with a population of less than 6 million, there are 115,000 opium smokers and an estimated yearly consumption of illicit opium of approximately 100 tons. The wholesale price for this quantity of raw opium amounts to approximately \$37 million. 3/ The price paid to the producers, however, amounted to only about \$2 million. (See Table 1** for prices paid to opium producers.) The rest accrued to the opium "syndicates" and "runners" and to government officials.

Many complex motivations, therefore, encourage, condone, and sustain the production and trade of narcotics in the Near East and in the Far East. In order to appraise the probable involvement of Communist China in this trade, it is necessary to determine as carefully as data permit the amount of illicit narcotics furnished the principal markets by the several suppliers. This approach serves to place in perspective the extent of the probable involvement of Communist China through 1955 with that of the other major suppliers. Accordingly, this memorandum presents available data on production and illicit traffic for each of the major markets.

* For serially numbered source references, see Appendix C.

** P. 9, below.

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II. Involvement in the Illicit Opium Trade of the Free World.

There are numerous reports both from intelligence sources and from the popular press stating that Communist China is officially and substantially involved in the international illicit opium trade. 4/ From an examination and evaluation of these reports and from a survey of the Southeast Asian and other world opium markets it would appear that the majority of these reports have little factual basis.

There are, indeed, indications that opium is not being produced on an extensive scale in Communist China. These indications are as follows:

1. Communist China has apparently waged an intensive campaign against opium production, trade, and addiction. A series of articles appearing in Chinese Communist newspapers and magazines (including those in opium-growing areas) has detailed the progress of this campaign. 5/
2. A complete lack of reliable reports on extensive production of opium in Communist China.
3. Reports that other Bloc countries of the Soviet Bloc have been buying opium from the Free World, possibly indicating that Communist China has inadequate production to supply such markets. 6/

Although Communist China has apparently been successful in curtailing opium production and trade, it is reported that small amounts of opium poppies are still being grown in Yunnan along the Burmese border. In these areas the Kachen, Wa, and Lisu ethnic groups live on both sides of the rather poorly defined border. 7/ Among these groups several tribes engage in the growing of opium poppies as a major occupation. In such settlements, therefore, opium poppies are grown on the Chinese Communist as well as on the Burmese side of the border. In Burma the authorities have either explicitly or tacitly permitted the growing of opium poppies by these groups on the grounds that it would work undue hardships to ban this major cash crop unless the tribes could be persuaded to grow other cash crops. 8/ Moreover, control over these tribes on the Burmese side, and perhaps on the Chinese Communist side as well, is nominal. It is reported that when the Communists attempted to ban opium production, they met with such

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resistance from Chinese Kachen tribes that they permitted this activity to continue. 9/

There appears to be no precise way to measure the quantities of opium which move from Yunnan to Burma. There are, however, several indications that such amounts are small. From a 1950 ethnic study of the area it is known that the majority of the opium-producing tribal groups mentioned above are physically located in Burma rather than in Communist China. 10/ Furthermore, it is reliably reported that the bulk of opium exported from Burma is actually of Burmese origin. 11/

The identity of the Yunnan opium so reported becomes lost because it is intermingled with Burmese opium. The Singapore Central Narcotics Intelligence Bureau, however, reports whenever possible the suspected origin or source of supply of seized narcotics, and in 1955 about 20 percent of its total seizures of raw opium were classified as "Yunnan" opium. 12/ The Singapore authorities state that the classification "Yunnan" opium is used to designate opium received through Thailand and probably consists of opium produced in Burma, Yunnan, Thailand, and Laos.* 13/ They state, however, that they have no evidence that this opium is produced in Communist countries. 14/

If, however, the opium termed "Yunnan" opium by the Singapore authorities and imported at an estimated annual rate of 20 tons was in fact produced totally in Yunnan, the Chinese tribes would receive only \$300,000 for the entire export -- the price of Burmese and Yunnan opium is reported to be \$15,000 a ton at the producer level. (See Table 1.***) In fact, the total amount received by the producers of the Burmese export crop would not exceed \$2 million. If the extreme assumption is made that 25 percent of Burmese export was of Yunnan origin, possible foreign exchange earnings by the Chinese tribes from such sales of opium in 1955 would not exceed \$500,000.

The lucrative profits in the illicit traffic of opium and its derivatives are earned not by the opium producers but by the various processors and middlemen.*** Especially profitable is the marketing

* In earlier years this opium was classified as "Thailand" opium. This classification is, of course, as misleading as the classification "Yunnan" opium.

** P. 9, below.

*** The relative earnings of producers and middlemen are given in III, below.

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of morphine and heroin. An examination of narcotics markets in Southeast Asia, Malaya, Macao, and Hong Kong failed to identify any official Chinese Communist involvement. On the contrary, substantial evidence exists that this market is dominated by non-Communist groups.

Some idea of the possible involvement of Communist China both in the adjacent Southeast Asian and in other world markets can be obtained from the Annual 1955 Report of the UN Commission on Narcotics. 15/ A total of 211 opium seizures is listed by suspected country of origin in this report, and in only one case was Communist China reported as the country of origin of the drug. The reporting country was the US. The seized drug, heroin, was less than 3 percent of total US opium seizures reported, and the case involved a shipment from Hong Kong. Hong Kong authorities, however, as recently as the spring of 1956, stated that they have no evidence that opium or opium derivatives of Chinese Communist origin enter Hong Kong. 16/

The Chinese are the racial group in Southeast Asia most addicted to the use of opium and most heavily involved in the distribution of opium. It is reasonable to assume that among the Chinese involved in the trade a number are Communists or Communist sympathizers. Chinese Communist intelligence and political agents may also engage in individual -- and perhaps even in group -- efforts in the lucrative opium trade in order to obtain funds to finance Communist activities. It is reported that Communist groups peripheral to Communist China engage in the trade, and their activity may furnish indications of the possible ways in which the Chinese Communists may be involved. For example, one of the reasons given for the recent raids by the South Vietnamese government on opium dens was that they were a source of funds for agents from North Vietnam. 17/ It is also reported that a local Japanese Communist Party group sold opium derivatives in the early 1950's to finance Party activities. 18/ However, Communist China's official participation in a systematic way in such activities as these, although probable, does not appear to be appreciable.

It is thus concluded that Communist China is not involved in an extensive export of opium or opium derivatives to the countries of the Free World. Communist China, furthermore, does not engage to a significant extent in the lucrative opium trade in the Free World. The principal sources of opium and derivatives for illicit Free World markets are described in the following sections.

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III. Opium-Producing Areas and Opium Markets in the Far East.

It is believed that Communist China probably is involved only to a very minor extent in the illicit opium traffic in the Far East (see II, above). There are, on the other hand, many indications that non-Communists are substantially involved in this trade. Some of the major aspects of this involvement are discussed below.

1. Burma.

There are no official estimates of the annual production of opium in Burma. Although tribes of the Akha, Kachen, Lahu, Lisu, Shan, and Wa groups traditionally produce opium, the number of people involved in the production of opium and the acreage planted to opium poppies is not known. The government of Burma freely admits that substantial quantities of opium are produced in the areas where these groups live but has never released an estimate of annual production. 19/ [] the majority of opium exported from Burma originates in the Shan State. 20/

From available information on domestic consumption and exports it is possible to estimate tentatively that the annual production of opium in Burma is at least 150 tons.

It is estimated that 60,000 opium addicts, concentrated principally in the producing areas and in the Bhamo and Myitkyina districts, consume 30 tons of opium a year.* 21/

Opium is exported from Burma to overseas markets by sea from Rangoon and, after traveling through Thailand, from Bangkok. It is estimated that 30 tons were exported from Rangoon in 1955. This estimate is based on the following considerations: (a) it is estimated that 12 tons were exported to Singapore and Malaya in 1955 from Burma (see Table 4**), and (b) Rangoon is 1 of the 2 principal supply ports for the Hong Kong and Macao markets.*** The opium traffic from Burma to Thailand is much larger than the shipments from Rangoon and is estimated to amount to approximately 90 tons.****

* This estimate is derived by assuming that the annual consumption of a Burmese addict is similar to that of a Thai addict -- 500 grams a year.

** P. 17, below.

*** See 5, p. 20, below.

**** For the derivation of this estimate, see Appendix A.

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The collection of opium from the producers is in the hands of officials and the ruling class of the Shan State, and the officials of the Wa and Kengtung States particularly are reportedly very heavily involved. 22/ Opium is then carried by caravans of Yunnanese traders who are called "Haws." The Haws are refugees from Yunnan. It was estimated in mid-1954 that approximately 1,500 of these people were scattered in small groups in tribal villages in Amphur Fang, Thailand. 23/ Burmese army officials reportedly are involved in this trade both as armed escorts for the protection of the opium runners and also as independent traders. 24/

It is probable that large stocks of opium are hoarded by the producers. One possible indication of such stocks is furnished by the offer of a Thai firm to sell 200 tons of opium. 26/ The source of this quantity of opium has never been satisfactorily explained by the firm. The most logical assumption, however, is that large quantities have been hoarded in the Burmese producing areas.

The value of the exports of opium from Burma to Thailand is given in Table 1.

Table 1

Value of Estimated Exports of Opium from Burma to Thailand
at Various Stages of Transport a/
1955

<u>Stage of Transport</u>	<u>Value in Wholesale Prices b/ (Thousand US \$)</u>
Producers	1,350
Kengtung, Burma	3,970
Thai-Burmese border	5,310
Chieng Mai, Thailand	6,840
Bangkok, Thailand	9,540

a. Estimated to be 90 metric tons.

b. 27/

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In addition to the \$1,350,000 received by the producers for the opium moving to Thailand, the producers also would receive \$450,000 for the 30 tons exported from Rangoon. Assuming that a total of \$200,000 more is earned by supplying opium to consumers in the domestic markets (part of the domestic supply is consumed by the producers), the Burmese tribal groups probably would not earn more than \$2 million annually from the sale of opium.

The profits to the Burmese groups involved in the clandestine trade would be considerably more than the amounts realized by the producers. From Table 1 it appears that 90 tons of opium at the Thai-Burmese border is valued at \$5,310,000. If it is assumed that opium at Rangoon is valued at the same price as at Bangkok, the 30 tons reported by this route would have a value of \$3,180,000. The middlemen, bribed government officials, and runners thus would earn approximately \$6.7 million for their services (this sum is the difference between the \$1.8 million paid the producers and the \$8,490,000 received by the Burmese middlemen).

2. Thailand.

Opium is smuggled from Burma to the following places in Thailand: Ban Chieng Dao, Chieng Rai, Chieng Mai, Muang Fang, Ban Mae Suai, and Muang Lampang. The main collection points are Chieng Rai, Chieng Mai, and Muang Lampang, from which points it moves by rail or by road to Bangkok. Opium from Laos in Indochina moves from Luang Prabang to Nan and Uttaradit. 28/ There is also a small export from other towns in the producing areas of Laos to Thai towns across the border. 29/

Small quantities of opium are also produced in Thailand. The main regions of opium cultivation are along the side of the Tenasserim Mountain Range on the Thai-Burmese border in the northwest, in the area west of Tak, in Mae Hong Son, and north of Chieng Mai from Chieng Rai to Nan. There are approximately 15,000 to 20,000 people of the Meo, Musso (Iahu), Lisu, and Yao tribes who are the principal cultivators of opium poppies. 30/ It is believed that production of raw opium may amount to approximately 25 tons a year. 31/

The annual consumption of opium in Thailand is estimated at 30 tons, of which 17 tons are supplied by legal channels and the remaining 13 tons by illicit channels. 32/

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There are approximately 30 Chinese "opium kings" in Thailand. ^{38/} These dealers finance a considerable part of the trade. Some of these dealers had previously operated opium syndicates in Malaya. In 1954 they were banished and went to Thailand where they resumed their former occupation.

From Table 1* and with an addition for the transit Laotian and Thai opium, it can be estimated that the profits to the Thais involved in the wholesale opium trade would be about \$6 million annually. Profits are also made from morphine and heroin, which are produced in Thailand. It is believed that there are two refineries in Thailand near the Thai-Burmese border, one at Chieng Saen ^{39/} and one probably in Tachilek. ^{40/} Another refinery was reported under construction in early 1956 at Chieng Dao. ^{41/} The value and volume of the trade in morphine and its derivatives, however, cannot be estimated without further information. The price of a pound of morphine at the refinery is approximately equal to the price of the raw opium used to manufacture it plus a small processing fee. Raw opium at the refinery points is therefore worth \$35 a pound, and morphine \$212 a pound. ^{42/} This is a ratio of a little more than 6 to 1 and reflects the relationship between the input of raw opium and the output of morphine. As with raw opium, the profits in the morphine trade go to the middlemen rather than to the producers.

* P. 9, above.

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There are a few reports indicating that Communists or Communist sympathizers are involved in the illicit opium trade of Thailand. ^{43/} It is apparent, however, that they do not dominate the trade. Available information indicates that Communist participation is relatively minor.

The Thais purchase opium at the border areas for gold. The value of such purchases is about \$7 million annually.* Of the estimated 1955 Thai imports of gold of \$22 million, it is estimated that 50 to 75 percent (\$11 million to \$16.5 million) was illegally re-exported. ^{44/} It is reported that a considerable part of the illegally reexported gold was used to pay for the import of opium. Assuming that 50 percent of the gold illegally reexported from Thailand was expended for this purpose, Thai gold expenditures for imported opium in 1955 could have amounted to between \$5.5 million and \$8.25 million. Thus the estimate of \$7 million as the value of Thai purchases of Burmese, Thai, and Laotian opium is reasonably consistent with the possible level of payments.

3. Indochina.

Laos is the producing area for opium in Indochina. ^{45/} The main producers are the Meo, principally in the provinces of Xieng Khouang, Houa Phan (Sam Neua), and Luang Prabang. The Yao in Nam Tha Province and the Kha of northwest Laos also produce a small part of the total output. Production varies greatly with the weather. A severe rainy season will cut down the output as much as 60 percent. Production in an average year is probably about 125 tons of raw opium.

The average rate of production in Laos apparently has been little affected by the occupation of part of the important producing area of Houa Phan by the Communist Pathet Lao. ^{46/} The Pathet Lao and their Viet Minh overlords do not attempt to control opium production in areas of Laos occupied by them but instead purchase opium from the tribes with silver at more favorable prices than the latter can obtain elsewhere. The Pathet Lao and the Viet Minh have been very careful in dealing with the Meo tribes, whose fighting qualities

* This estimate is composed of the following elements: approximately \$5.3 million for the purchase of 90 tons of opium from Burma (Thai-Burmese border price) \$590,000 for the purchase of 10 tons of opium from Thai producers (paid in gold), and \$1,180,000 for the purchase of 20 tons of Laotian opium.

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they respect. It is noteworthy that the Pathet Lao authorities share with the Thais and Burmese a reluctance to interfere with the traditional opium production and traffic engaged in by these mountain tribes.

Estimates of the number of opium addicts and of the consumption of illicit raw opium in Indochina in 1955 are given in Table 2.

Table 2

Estimated Number of Opium Addicts and Consumption of Illicit Raw Opium in Indochina
1955

<u>Province</u>	<u>Number of Addicts</u>	<u>Illicit Consumption (Metric Tons)</u>
South Vietnam	55,000 a/	30
North Vietnam	60,000	45
Laos	10,000	8
Cambodia	20,000	15
Total	<u>145,000</u>	<u>98</u>

a. Approximately 15,000 of these addicts receive legal opium "dis-intoxication" doses from government stocks rather than illicit opium.

Annual consumption of opium in South Vietnam is estimated by Mr. Tran Van, a Deputy Director of the South Vietnamese Police and Sûreté, at about 36 to 48 tons a year. 47/ Total number of addicts is estimated at 55,000, of whom about 40,000 are supplied by illicit opium. The remaining 15,000 are registered addicts, who receive legal "disintoxication" doses. From these figures it is estimated that illicit consumption of opium may amount to about 30 tons a year.

No statistics are available of annual consumption of opium in North Vietnam, Cambodia, and Laos. [redacted]

[redacted] about half the opium produced is consumed locally. 48/ This estimate of consumption is probably not an estimate

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of personal consumption by the Lao (as they number only 1.3 million) but an estimate of the amount retained by the Lao after the official collection. The larger part of the opium retained after the official collection was purchased by private opium dealers and resold in Indochina, Thailand, Burma, and Communist China. A smaller part of retained opium was actually consumed in Laos. Assuming that North Vietnam, Laos, and Cambodia have a pattern of addiction and consumption similar to South Vietnam, annual consumption could amount to about 68 tons.

Thus total consumption in Indochina could amount to approximately 100 tons a year. As approximately 125 tons of opium are produced annually in Laos, approximately 25 tons of Laotian opium are available for hoarding and for export to other countries.

Opium is sold quite openly in Laos. [redacted]

[redacted] recently reported: "Opium can be purchased in village markets in Sam Neua [Houa Phan], Luang Prabang, and Xieng Khouang provinces, as well as in the northwest. It can be bought right in the town of Xieng Khouang." 49/ With a readily available source of supply at competitive prices, opium smuggling from Laos is a relatively large-scale operation. Airplanes and trucks, both civilian and military, are used extensively for the clandestine movement of opium from the Laos collection centers to the markets.

South Vietnam is currently supplied principally from Vientiane, Laos, by plane and truck. The center for import is the Cha Lon district of Saigon. 50/

[redacted]

* Above the 18th parallel the only customs offices are along the Mekong River -- at Ban Houoi Sai, Pak Lay, Sanakham, Vientiane, and Pak Sane.

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According to the South Vietnam police, opium constitutes an important source of revenue for Communist agents in South Vietnam. It is believed that a part of the illicit supply of opium may be smuggled from Haiphong and other ports in North Vietnam. The retail end of the opium trade in South Vietnam is reportedly in the hands of Chinese who since the recent introduction of stricter measures against illicit opium traffic probably are susceptible to blackmail by Communist agents. Although there is no evidence at hand that this is taking place, a development of this type is not impossible. The determination of whether the Communist North Vietnamese are involved in the South Vietnamese opium traffic is not within the scope of this memorandum, [redacted]

[redacted] Commenting on the increased activity in late 1955 of the law enforcement authorities in raiding and closing clandestine opium dens in the Cha Lon area of Saigon, he said: "It is believed probable that two factors contribute to this increase in anti-narcotics activity, first the strong reformist views of Prime Minister Ngo Dinh Diem and secondly a desire to eliminate sources of revenue for the Binh Xuyen rebels, clandestine Vietminh agents, and other anti-government elements." 55/ On the other hand, quantities of opium move from Laos across the Tonkin frontier into North Vietnam. 56/ This traffic is not covert; smuggling, since the Viet Minh control the border and do not interfere with the traffic. The quantities involved, however, are believed to be small.

4. Singapore and Malaya.

Two of the principal markets for Southeast Asian opium exports are Singapore and Malaya. The sources of supply of raw opium seized in Singapore by country of origin, in 1954 and 1955 are given in Table 3.* In 1955, 50 percent of the seizures of opium in Singapore by weight were produced in Iran and 32 percent in Southeast Asia.

The market in Singapore and Malaya is estimated by the Singapore Central Narcotics Intelligence Bureau to consume about 100 tons of illicit opium annually. 57/ The total number of opium addicts in Singapore and Malaya is estimated to be 115,000. There is no domestic production of raw opium in either Singapore or Malaya. Assuming that the data on seizures of opium of Singapore origin are closely

* Table 3 follows on p. 16.

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correlated with estimates of total illicit consumption and that the data concerning Singapore may be applied as well to Malaya, the sources of supply and origin of raw opium for Singapore and Malaya are estimated to be as given in Table 4.* The estimates indicated

Table 3

Sources of Supply of Raw Opium Seized in Singapore a/
by Country of Origin
1954-55

Country of Origin	Quantity Seized (Pounds)		Percent of Total Seizures	
	1954	1955	1954	1955
Iran	1,834	2,333	46.5	50
Yunnan b/	914	965	23	20
India	546	552	14	12
Burma	656	547	16.5	12
Unknown	9	498		6
Total	<u>3,959</u>	<u>4,695</u>	<u>100</u>	<u>100</u>

a. 58/

b. This term is used by local traffickers to indicate opium received through Thailand and probably consists of illicit supplies originating in the adjoining areas of the Wa States and Kantung State in Burma, Laos, and North Thailand as well as in Yunnan.

in Tables 3 and 4 are consistent with the known export potential of the above countries. These tables indicate that, despite the proximity of sources of supply of raw opium in the Burma-Thailand-Yunnan-Laos region, the major part of the illicit supply of opium in 1955 came from Iran. Singapore officials believe that the preference for Iranian opium rather than for other types is the result of the following two factors: (a) Iranian opium is easily imported

* Table 4 follows on p. 17.

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and available in good supply, and (b) Iranian opium has a very high morphine content (9 to 11 percent, compared with 6 to 9 percent for the Yunnan type).

Table 4

Sources of Supply of Raw Opium for Singapore and Malaya
by Country of Origin
1954-55

<u>Country of Origin</u>	<u>Amount</u> <u>(Metric Tons)</u>	
	<u>1954</u>	<u>1955</u>
Iran	46.5	50
Yunnan a/	23	20
India	14	12
Burma	16.5	12
Unknown		6

a. This term is used by local traffickers to indicate opium received through Thailand and probably consists of illicit supplies originating in the adjoining areas of the Wa States and Kantung State in Burma, Laos, and North Thailand as well as in Yunnan.

Iranian opium moves into the Malayan market principally by sea. The following ports on the Persian Gulf are active outlet centers for Iranian opium: Bahrein, Dibai, and Aden. Additional Persian Gulf ports which are outlets for illicit opium are Mena-Al-Ahmadi (near Kuwait), Fao (at the mouth of the Euphrates), Ras Tanurah (near Bahrein), Abadan, Kuwait, Basra, Khorramshahr, and Dammam (near Bahrein). 59/

There are several reports which furnish details of the movement of illicit opium from Iran to the outlet ports on the Persian Gulf. One report states that a small syndicate of Bahreini Arabs trades in opium on a very large scale from Dibai to Aden, East Africa, and Singapore. 60/ The opium is procured from Iran and shipped to Aden concealed in cargo where it is transferred to oceangoing vessels.

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Another report states that fairly large quantities of opium are being smuggled into Basra, Iraq, from Iran via Muzaira and Shuwayyib. 61/ The source of this report states that Iraqi police share in the profits. It is also reported that the town of Qasbat, Iran, is the center for smuggling opium into Kuwait. Small ships of Iranian or Kuwaiti ownership are used to carry the opium from Qasbat to Kuwait.

Opium smugglers have also used commercial aircraft to move opium from Iran to the Malayan area.

Tables 3 and 4 show that, next to Iranian opium, the most common type imported into the Malayan area is "Yunnan" opium.* Considerable information exists concerning the routes used to move this type of opium from Thailand to the Malayan area. The principal route is by sea from Bangkok. Singapore Narcotics Bulletin No. 2 for the second quarter of 1955 reports that nearly every ship arriving from Bangkok carries illicit narcotics drugs, usually opium.

It is probable that considerable quantities of opium move across the Thai-Malayan border. 62/ Opium is shipped by rail from Northern Thailand to Haadyai, which apparently is the smuggling center of South Thailand. From Haadyai it moves out to the ports of Songkhla, Pattani, and Norathiwat and across the border to Malaya. The facilities of commercial airlines have also been used to smuggle opium from Bangkok to Singapore. The transport of opium by airplane, however, appears to be a small-scale and intermittently used means of smuggling. Opium from Burma is transported to Malaya principally from the port of Rangoon.

The estimated value of imports of opium into Malaya and Singapore, by country of origin or by source, is given in Table 5.** The importance to the Malayan economy of such imports can easily be seen by an examination of Table 5 and trade returns. In 1955, opium was the sixth largest import into Singapore and Malaya. 63/

* For definition of "Yunnan" opium, see p. 6, above.

** Table 5 follows on p. 19.

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Table 5

Estimated Value of Imports of Opium into Singapore and Malaya
by Country of Origin or by Source a/
1955

Country of Origin or Source	Estimated Imports (Metric Tons)	Value per Metric Ton (US \$)	Total C.I.F. b/ (US \$) Value
Iran	50	396,995	19,849,750
Yunnan c/	20	272,003	5,440,060
India	12	459,491	5,513,892
Burma	12	308,761	3,705,132
Unknown	6	356,800	2,140,800
Total			36,649,634

a. 64/

b. Cost, insurance, and freight.

c. For the discussion of "Yunnan" opium, see p. 6, above.

The values in Table 5 have been expressed on a c.i.f. basis; however, the cost of importing opium into Malaya is very high. Bribes alone are reported to account for almost half of the delivered costs. In 1955, opium could be purchased in Bangkok at \$105,831 a ton, or approximately 39 percent of the price in Malaya. Assuming that this percentage is representative, the wholesale f.o.b.* value of exports of opium to Singapore and Malaya, by country of origin, can be estimated as given in Table 6.**

Opium also moves to Singapore for transshipment to other world markets. Seizure reports indicate that opium from Singapore

* Free on board.

** Table 6 follows on p. 20.

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Table 6

Estimated Wholesale F.O.B. a/ Value of Exports of Opium
to Singapore and Malaya, by Country of Origin b/
1955

	US \$
<u>Country of Origin or Source</u>	<u>Approximate F.O.B. Value of Opium</u>
Iran	7,741,402
Yunnan <u>c/</u>	2,121,623
India	2,150,418
Burma	1,445,001
Unknown	834,912
Total	<u>14,293,356</u>

a. Free on board.

b. 65/

c. For discussion of "Yunnan" opium, see p. 6, above.

moved to Indonesia, to the UK, and to Mauritius. 66/ The amount of opium transshipped annually from Singapore and Malaya is not known but is probably small in comparison with the estimated 100-ton consumption in the Malayan area.

5. Hong Kong and Macao.

Seizure reports indicate that Thailand is the principal source of opium and opium derivatives imported into Hong Kong and that Burma and India are secondary sources. 67/ Macao's sources are reported to be similar to those of Hong Kong. 68/ In both cities there are refinery facilities. In 1955, Macao had at least four refineries. 69/ [redacted] in 1955 there existed in Hong Kong elaborate clandestine manufacturing activities. 70/ Unlike the rest of Southeast Asia, the Hong Kong and Macao markets are not essentially opium-smoking markets. "Smoking" heroin or heroin "red-ball pills" appear to be preferred by the native addict.

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The annual opium consumption of Macao and Hong Kong, estimated on the basis of 10,000 addicts, apparently would not exceed the equivalent of 10 tons of raw opium. Probably larger than this import for domestic consumption is the import for transshipment. Seizure reports indicate that the US and Japan imported heroin from Hong Kong. 71/ [] opium from Hong Kong also reaches other markets.

Seizure reports probably provide a very rough indication of the amount of opium and opium derivatives imported into Hong Kong. Hong Kong seizures in 1955 amounted to about 60 percent of Malayan and Singapore seizures. 72/ It would be expected, however, that Hong Kong authorities would be considerably more effective in preventing opium smuggling, since they do not have to guard a long, thinly settled coastline, and domestic conditions are more settled. Annual Hong Kong imports, accordingly, might be estimated to amount to the equivalent of from 20 to 30 tons of opium.

Macao is probably a considerably less important market than Hong Kong, and much of its opium export goes through Hong Kong and is included in the estimate of Hong Kong imports. Perhaps the equivalent of from 5 to 10 tons of opium is also imported by Macao for consumption and export to markets other than Hong Kong.

The great majority of the Hong Kong seizures report that Thailand is the origin of the opium and opium derivatives. This, obviously, is not the actual origin of the opium but merely the outlet country. The Hong Kong imports probably originate mainly in Burma, with smaller amounts originating in Thailand, Laos, and Yunnan.

Total imports into Macao and Hong Kong are therefore estimated to be about the equivalent of from 25 to 40 tons of opium and reexports to be from 15 to 30 tons.

IV. Production of Illicit Opium and Principal Markets in the Near East and South Asia.

Apart from the Far East there is only one other area where an extremely large market for opium exists. The problem of opium addiction is very serious in the Near East and in South Asia. Perhaps the worst problem exists in Iran, where in 1955, according to a press statement made by the Minister of Health, there were 1.5

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million opium addicts. 73/ He also stated that in the past 10 years total production of opium had varied between 700 and 1,200 tons annually, of which an annual average of only 90 tons was legally exported. Other producing countries in this region from which opium is exported clandestinely are Turkey, Afghanistan, India, and Pakistan. 74/

Opium from the Far East is clearly not an important factor in this area. Production facilities for the manufacture of morphine and heroin in 1955 existed in practically all the countries mentioned above. In addition, refineries probably were operating in transit zones. In this connection, the exports from Lebanon to the US are of some significance. 75/

1. Iran.

It is estimated that in 1954, production of opium in Iran was approximately 850 tons. 76/ Of the 850 tons, it is estimated that 150 tons might have been clandestinely exported from the country. Seizure reports indicate that Iranian opium in substantial quantity was exported to Singapore and Malaya. 77/ Iranian opium also was clandestinely exported to India, Pakistan, Aden, the UK, and the Netherlands. Reports indicate that, despite the complete ban on production of opium in Iran in 1956, some clandestine production still continues. 78/

The Iranian Minister of Public Health has estimated a daily consumption of opium in Iran of about 1 ton. 79/ This estimate would appear to be extremely low in view of his own estimate of 1.5 million addicts, since it would represent a daily consumption per addict less than half that of the Southeast Asian addicts. An annual opium consumption before 1956 of from 500 to 600 tons would appear likely in view of the number of addicts and in view of what is known about production and exports.

2. India.

In 1951-52, production of opium in India was 334 tons. 80/ This production was under relatively firm control of the Central Government. It is estimated that, in 1951-52, opium amounting to approximately 15 tons was smuggled from Madras to Singapore and Malaya. 81/ Seizure data indicate that 1955 exports to Singapore and Malaya were about 12 tons, or slightly less than the 1951-52

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estimate of Indian illicit exports to this area.* Illicit opium from India also was exported to Hong Kong, the Netherlands, and the UK. 82/

3. Turkey.

The Central Statistical Office of Turkey has estimated that 44,000 hectares were planted to opium poppy in 1955. 83/ Production in 1955 is estimated at 300 tons compared with the production in 1954 of 130 tons. It is estimated that from 10 to 15 tons escaped the governmental official buying program. A substantial portion of the 10 to 15 tons presumably could be illicitly exported. Seizure data indicate that Turkish opium was exported to Egypt and the US. 84/

4. Pakistan.

Opium is grown in the Jadun area of the Northwest Frontier Province of Pakistan under governmental supervision. 85/ In 1952 the government collected approximately 15 tons, principally from this area. Current production and collection probably have increased since 1952 as the government planned to increase domestic production to 50 percent of its domestic legal requirements (legal requirements in 1952 were estimated at 45 tons). There is reported illicit cultivation of opium and Indian hemp in the Northwest Frontier Province and tribal areas and in Baluchistan, Chitral, and Swat. Although Pakistan is believed to be a net importer of illicit opium, there are indications that some illicit opium is exported from West Pakistan to other areas.

5. Afghanistan.

Estimates of average annual production of opium in Afghanistan cannot be made with any great degree of precision. A US botanist visited the Jurim and Kishim districts of Badakshan Province in late 1954 and estimated total Afghan production at 12 tons. 86/ It is reported that production in 1955 probably exceeded that of 1954. A report of early 1955 states that the Afghan government had requested UN permission to sell on the legal world market about 40 tons annually. 87/ This request suggests that production in 1955 probably was in excess of 12 tons. It is believed, however, that the 40 tons requested were for purposes of bargaining and probably were for double the amount of current production. It is also believed that part of Afghan production is exported clandestinely. 88/

* See Table 4, p. 17, above.

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V. Markets for Illicit Opium in Other Areas of the World.

The markets for illicit opium in the other areas of the world are small compared with the markets of the Far East, the Near East, and South Asia. The UN Commission on Narcotic Drugs stated in its annual 1955 report that opium traffic in Europe and Africa is unimportant. 89/ The North American market apparently is supplied principally with opium from Mexico and Lebanon. 90/ In South America, opium traffic is relatively unimportant.

VI. Conclusions.

The international illicit opium trade is conducted in an atmosphere of secrecy and intrigue. This secrecy, as well as the fact that the trade is carried on by many entrepreneurs, militates against the making of precise estimates. Despite these disadvantages, it is possible to obtain sufficient reliable information to characterize the possible involvement of Communist China in the opium situation in Southeast Asia and in other world markets as follows:

1. There is a small export of raw opium produced by minority tribes in Yunnan Province, Communist China, to Burma. The earnings to the producers from this export would not exceed \$500,000 annually.

2. Communist China probably permits this export for political purposes -- that is, it does not want to precipitate an open break with the unruly tribal producers by interfering with an important traditional economic and social pursuit.

3. The major opium producers in Southeast Asia are Burma and Laos. The production of these two countries coupled with Thai production supplies the large domestic markets and provides a sizable export potential. The Burmese, Thai, and Laotian governments permit this production for political and economic considerations similar to those attributed to Communist China.

4. Opium exported from Southeast Asia moves principally through Bangkok, Thailand, and, to a lesser extent, through Rangoon and Burma, supplying significant quantities of opium

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to Malaya, Hong Kong, Macao, and Indonesia. Singapore, Hong Kong, and Macao are important intermediate transit points for the supply of opium to other world markets. Refinery facilities to service the markets for opium derivatives exist in Thailand, Macao, Hong Kong, and in the major consuming areas. There is no evidence indicating that Communist China exports opium derivatives. Spasmodic efforts of the affected governments to suppress this trade are nullified by the tolerant attitude of the Southeast Asian people toward opium addiction; by the venality of poorly paid government officials; and by the realization that, if opium does not move through their country, it will move through an adjoining country.

5. The Southeast Asian producers receive a very small return for their opium crop. Opium produced for the illicit trade is apparently in surplus supply. This surplus may be the result of the virtual disappearance of the former large Chinese market since the generally successful opium-addiction-suppression campaign of the Chinese government on the China mainland.

6. The lucrative profits in the opium traffic are earned by many middlemen and by government officials. Available evidence suggests that these dealers and government officials are engaged in this trade for personal gain. Members of local Communist parties in the Far East and in Southeast Asia may be involved in the trade in order to finance Communist activities, but there is no available evidence indicating that such involvement is substantial or that it is systematically directed by the Chinese Communists. The trade appears to be dominated by non-Communists.

7. North Vietnamese and North Korean agents may be involved in the opium traffic in South Vietnam and South Korea. Because Communist China is not patently and directly involved in this trade, however, this aspect has not been developed in this memorandum.

8. In the Near East and in South Asian countries, the production and illicit consumption of opium and opium

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derivatives probably are even greater than in Southeast Asia. The countries in these regions are also important suppliers to the world illicit markets. It is estimated that Iran, alone, supplied 150 tons to international markets in 1955. Seizure reports indicate that Turkish opium is an important factor in the supply of Middle East countries. Morphine- and heroin-processing facilities and trade are under the control of non-Communists in this general region. There does not appear to be any evidence of Chinese Communist influence in this trade.

9. Compared with the Near East and Southeast Asia, the remaining illicit markets are relatively unimportant. Opium traffic in Europe and Africa is not important. Seizure reports indicate that the North American market is principally supplied with opium which either originated in Mexico or Lebanon or was transshipped from these countries. One US seizure report indicates that Communist China was the suspected origin of a shipment of contraband heroin which was transshipped from Hong Kong. Hong Kong authorities and US Treasury representatives in Hong Kong state, however, that they have no evidence that opium or derivatives from Communist China enter Hong Kong. With this possible exception, seizure reports indicate that the world illicit markets are supplied with contraband opium and derivatives produced in Free World countries, and intelligence reports indicate that the world opium trade is in the hands of non-Communists.

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APPENDIX A

METHODOLOGY

The general methodology used in this memorandum is as follows: (1) a survey, based on intelligence and seizure reports, was made of the origin of opium which moves to the principal markets; (2) a rough calculation was made of the amounts of opium required by the illicit markets; and (3) a similar survey was made of the groups involved in the marketing of opium. As a result of these three steps, it was determined that adequate supplies of illicit opium produced in the Free World moved to the illicit markets under the direction of Free World contraband traders. Substantial participation by Communist China in this trade was therefore ruled out.

The secrecy of the international illicit opium trade made it impossible to reconcile all the elements of the various estimates. For example, one of the key estimates indicates that, on the average, approximately 150 tons of opium are exported every year from Laos, Thailand, and Burma. A tabulation of imports by various markets with an addition for total seizures leaves approximately 35 tons of this opium unaccounted for. This discrepancy, however, is not serious since it does not affect the main conclusions of the memorandum. Errors could have resulted from one or more of the following factors:

1. The estimated 150 tons of opium exports (opium and derivatives -- derivatives were converted to their raw opium equivalent) were broken down to a 120-ton transit movement through Thailand and a 30-ton export through Rangoon. The former estimate, based on an estimate that seizures probably represent 25 percent of total transit movement, could be in error. The latter estimate appears to be relatively firm.

2. The assumption was made that the origin of opium imported into Malaya is identical with the origin of opium imported into Singapore. This assumption may be in error, however, because opium from Thailand could move more easily into the Malayan Federation than opium from Iran, which is the principal supplier for Singapore.

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The opium traffic from Burma to Thailand is estimated to amount to approximately 90 tons. This estimate is based on the following considerations:

- (a) Total transit traffic through Thailand is estimated to be 120 tons.
- (b) Approximately 10 tons were available for export from Thai production.
- (c) Approximately 20 to 25 tons were available for export through Thailand from Laotian production.
- (d) The remainder of the transit opium, approximately 90 tons, entered Thailand through Burma and was produced principally in Burma. Opium from Yunnan supplemented the Burmese production.

There are a considerable number of unreliable reports alleging that Communist China is substantially involved in the illicit export of opium and derivatives to the Free World. Each of these reports had to be evaluated. This evaluation required extensive research into the opium situation of the entire world in order to determine the actual sources of illicit narcotics.

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APPENDIX B

GAPS IN INTELLIGENCE

The most serious gap in intelligence on the illicit opium trade is the lack of an independent estimate for the production of opium in Burma. It is possible that data could be obtained from local Burmese officials which would allow an estimate to be made based on acreage under cultivation or number of people growing opium poppies rather than by the method used in this memorandum.

There is also a deficiency of reliable information from Communist China on the production of opium. It has been assumed that this deficiency indicates that production of opium in Communist China is extremely limited, but information obtained from systematic interrogation of refugees and repatriates on this subject might furnish a more accurate appraisal. More reports on the extent of the production of opium by the Chinese minority ethnic groups probably could be obtained from Chinese who have fled from Yunnan into Burma and Thailand.

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